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September 14, 1998

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Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street NW Room 222
Washington DC 20554

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SEP 14 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:)
)
Petition for Rulemaking to Amend Part 32) RM 9341
Of the Commission's Rules to Adopt the)
Accounting for Software Required by)
Statement of Position 98-1)
)

Dear Ms. Salas:

Enclosed are an original and nine copies, plus two additional public copies of the Comments of Cincinnati Bell Telephone Company in the above referenced proceeding. A duplicate original copy of this letter and attached Comments is also provided. Please date stamp this as acknowledgment of its receipt and return it. Questions regarding these Comments may be directed to John Wilcox at the above address or by telephone on (513) 397-5569

Sincerely,



David L. Meier

Enclosure

cc: International Transcription Services, Inc
Brett Kissel,
Accounting Systems Branch,
Accounting Safeguards Division

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DIALOGUE

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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

In the Matter of

:
: RM-9341

Petition for Rulemaking to Amend
Part 32 of the Commission's Rules,
Uniform System of Accounts for
Class A and Class B Telephone
Companies to Adopt the Accounting
for Software Required by Statement
of Position 98-1

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

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Filed: September 14, 1998

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

In the Matter of	:	
	:	RM-9341
Petition for Rulemaking to Amend	:	
Part 32 of the Commission's Rules,	:	
Uniform System of Accounts for	:	
Class A and Class B Telephone	:	
Companies to Adopt the Accounting	:	
for Software Required by Statement	:	
of Position 98-1	:	
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COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

Cincinnati Bell Telephone ("CBT"), an independent, mid-size local exchange carrier, submits these Comments in response to the Commission's August 13, 1998, Public Notice in the above-captioned proceeding. Through these Comments, CBT supports the position taken by BellSouth Corporation, BellSouth Telecommunications, Inc. and the Bell Atlantic telephone companies (hereinafter referred to collectively as the "Joint Petitioners") in their Petition for Rulemaking dated August 3, 1998.

I. INTRODUCTION

On March 4, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, providing guidance on accounting for the costs of computer software developed or obtained for internal use. The SOP changed the predominant

telecommunications industry practice from expensing costs attributable to internal-use software to capitalizing such costs. The Federal Communications Commission (“Commission”) requires that carriers’ regulatory accounting records conform to Generally Accepted Accounting Principles (“GAAP”); hence, the Commission must authorize changes in its Part 32 rules to maintain consistency with local exchange carriers’ obligation to capitalize internal-use software costs in their financial accounting records.

SOP 98-1 becomes effective December 15, 1998. Carriers must begin capitalizing costs in their GAAP books on January 1, 1999. In order to meet these dates, the Commission must initiate a rulemaking proceeding, as requested by the Joint Petitioners, immediately.

II. THE COSTS OF CAPITALIZED INTERNAL-USE SOFTWARE SHOULD BE CLASSIFIED AS INTANGIBLE ASSETS.

CBT supports the Joint Petitioners in asking the Commission to treat the costs of capitalized internal-use software as an intangible asset that should be part of account 32.2690. In many cases, CBT owns nothing more than the right to use a given software package. Joint Petitioners correctly point out that the real value of software is derived from its intangible qualities, and not any physical qualities that software may possess.

For example, with a client-server environment, the user is often connected to a file server that is a storage location for software programs. Users are able to use the software programs despite having no software actually installed on their desktops. This is possible because users are able to remotely access the “set of instructions” that form the basis for software programs. This example clearly illustrates that the value of

software is derived from the power of its instructions and users' ability to access these instructions.

Accordingly, CBT supports the Joint Petitioners in asking that the Commission prescribe use of an intangible account, account 32.2690, for classification of capitalized internal-use software costs.

III. CARRIERS SHOULD HAVE THE OPTION OF ESTABLISHING INDIVIDUALIZED AMORTIZATION SCHEDULES.

The Commission also seeks comment on whether it should "prescribe ranges of amortization periods for the different types of software." Given the nature of the telecommunications industry, CBT believes that internal-use software costs essentially fall into two broad categories:

- 1) Network-based software (*e.g.*, software required to run a telecommunications switch or otherwise operate the public telecommunications network); or
- 2) General and administrative software (*e.g.*, software that is used for payroll processing or financial reporting).

Network-based software is replaced more frequently than general and administrative software. As a result, CBT supports a shorter amortization period for network-based software than for general and administrative software. However, CBT recognizes that not all telecommunications providers operate identically in terms of software use. Depending upon the carrier, certain providers may incur unique internal-use software costs in order to adequately equip a central office switch, compile financial statements or process payroll. Accordingly, CBT believes that each carrier should have the option to establish amortization schedules that reflect a systematic and rational

allocation of internal-use software costs over the useful life of the software. Permitting individualized amortization schedules is in accordance with GAAP and is in the best interests of all local exchange carriers.

As mentioned above, CBT submits that the Commission should allow each carrier to establish its own amortization periods for capitalizing internal-use software costs. CBT also recognizes, however, that the Commission may be concerned about this significant new addition to assets (assuming the Commission adopts the SOP promulgated by the AICPA). In consideration of this, and in the event that the Commission desires to prescribe amortization periods, CBT takes this opportunity to recommend amortization periods for each software category.

In order to continually offer new and improved services, telecommunications carriers must make frequent upgrades to their network-based software. Accordingly, it is not uncommon for carriers to upgrade their switching software as often as every eighteen months to two years. This is necessary in order to maintain an advanced telecommunications network and thereby attract and retain customers.

General and administrative software does not necessarily have to be upgraded frequently. While general and administrative software can be used to improve service to customers, it is not ordinarily viewed as providing a competitive advantage that requires regular updating to attract or retain customers. As a result, general and administrative software tends to remain functional longer than network-based software.

If the Commission desires to prescribe amortization periods, CBT suggests the following ranges:

Network-Based

Minimum = 1 years

Maximum = 3 years

General and Administrative

Minimum = 2 years

Maximum = 5 years

CBT believes that these ranges are supportable for GAAP purposes and represent the approximate amortization lives that carriers will choose for external reporting purposes.

In sum, the Commission's decision not to prescribe uniform amortization periods at all, or to adopt the ranges suggested above, would offer CBT and other carriers a measure of conformity between their financial and regulatory records. CBT supports the Joint Petitioners' suggestion that the Commission issue a notice of proposed rulemaking recommending changes in the Part 32 rules which will allow carriers to capitalize internal-use software costs in both their financial and regulatory records.

IV. Conclusion

CBT supports the Joint Petitioners' request to amend the Part 32 rules, Uniform System of Accounts, to accommodate the recent changes in GAAP concerning treatment of internal-use software costs. Therefore, the Commission should grant the Joint Petitioners' request that the Commission publish a Notice of Proposed Rulemaking recommending such changes to accommodate the SOP requirements. In order for carriers to implement these accounting changes on or before January 1, 1999, the Commission is urged to issue a Notice of Proposed Rulemaking immediately.

Respectfully submitted,



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